

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

JUL 23 1999

In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Forward-Looking Mechanism for High	)	CC Docket No. 97-160
Cost Support for Non-Rural LECs	)	
	)	

**COMMENTS  
OF THE  
UNITED STATES TELEPHONE ASSOCIATION**

The United States Telephone Association ("USTA") hereby files its comments in response to the Commission's Further Notice of Proposed Rulemaking ("FNPRM") in the above-referenced proceeding.<sup>1</sup> USTA is the principal trade association of the local exchange carrier ("LEC") industry. Its members provide over 95 percent of the incumbent LEC-provided access lines in the United States.

In the FNPRM, the Commission proposes input values and various capital cost parameters for the forward-looking cost model it previously selected to use for determining federal universal service support mechanisms for non-rural carriers. The Commission states that the forward-looking cost of providing supported services estimated by the cost model will be used to determine high cost support for non-rural carriers beginning January 1, 2000.

Many of the Commission's proposals regarding inputs require responses of a company-specific nature, but others are more policy oriented. USTA comments on certain of the specific input issues raised in the FNPRM.

The Commission also raises certain other issues related to the high cost mechanism, including alternatives to the high cost model and proposed modifications to procedures regarding rural and non-rural carriers. USTA offers its comments on those issues as well.

## **I. MODEL INPUT ISSUES**

### **A. Appropriate Level of the Productivity Factor**

The Commission uses a productivity factor of 6.5 for price cap LECs throughout its consideration of inputs for its cost model. This is inappropriate for several reasons. First, the D.C. Circuit Court of Appeals has reversed the Commission's decision to select a 6.5 productivity factor.<sup>2</sup> Second, a study prepared by Professor Frank M. Gollop has definitively demonstrated that the productivity factor should be significantly lower.<sup>3</sup> In addition to the improper productivity factor, the Commission should apply an inflation ratio to the factor. The application of such a blatantly incorrect productivity factor skews the results of the cost model and should be corrected.

### **B. Appropriate Level of Plant**

The use of the current level of plant in service, as opposed to plant built to demand, is

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<sup>1</sup> FCC 99-120, released May 28, 1999.

<sup>2</sup> *United States Telephone Association v. FCC*, Case No. 97-1469, May 21, 1999.

<sup>3</sup> See *Ex parte* letters from Linda L. Kent, USTA Associate General Counsel, to Magalie Roman Salas, FCC Secretary, in CC Docket Nos. 96-262 and 94-1, filed April 20, 1999 and April 14, 1999; Attachment D to USTA Comments in CC Docket No. 96-262, filed October 22, 1998; and Attachment C to USTA Reply Comments in CC Docket No. 96-262, filed November 5, 1998.

improper. Section 254 of the Communications Act of 1934, as amended, (the Act)<sup>4</sup> provides that universal service is to be preserved and advanced. The only way this statutory objective can be achieved is to allow carriers to account for plant that is built to demand. Otherwise, carriers cannot even maintain the status quo.

## **II. HIGH COST MECHANISM ISSUES**

### **A. Alternative to the Forward-Looking Cost Model**

In a simultaneously released order,<sup>5</sup> the Commission deferred implementation of the new forward-looking support mechanism for non-rural carriers from July 1, 1999 to January 1, 2000. The Commission also amended its rules so that the present high-cost mechanism remains in effect until January 1, 2000.

In this proceeding, the Commission states that it is its expectation that the cost model outputs will be fully verified in time for implementation of the forward-looking support mechanism for non-rural carriers on January 1, 2000.<sup>6</sup> However, the Commission requests comments on how it might determine support levels without a forward-looking cost model.<sup>7</sup> In addition, the Commission asks commenting parties to describe how their proposals will generate sufficient support to meet the goal of Section 254 of the Act.<sup>8</sup>

As a preliminary matter regarding the Commission's intended use of a forward-looking cost model for determining costs for universal service support for non-rural carriers, USTA once

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<sup>4</sup> 47 U.S.C. §254.

<sup>5</sup> Seventh Report & Order and Thirteenth Order on Reconsideration in CC Docket No. 96-45 Fourth Report & Order in CC Docket No. 96-262 and Further Notice of Proposed Rulemaking, FCC 99-119, released May 28, 1999 (Implementation Order).

<sup>6</sup> FNPRM at ¶243.

<sup>7</sup> *Id.*

<sup>8</sup> *Id.* 47 U.S.C. §254.

again voices its opposition to use of such a model.<sup>9</sup> The model being considered by the Commission is not designed to measure subsidies. The costs determined using the cost proxy model do not reflect economic costs incurred by efficient incumbent LECs. Even the most efficient LECs can expect their actual costs to exceed costs identified by the model. Real costs are what are relevant. Because the model is purely speculative, it cannot be used to represent real costs for policy purposes. The model should not be used to target universal service support to high cost areas, to price unbundled network elements, or to reduce implicit universal service support contained in access charges.

Actual costs should be used for these purposes. The USTA Universal Service plan accomplishes these tasks and remains a viable solution to achieving universal service reform for non-rural companies.<sup>10</sup> It should be adopted by the Commission.

Specifically responding to the Commission's inquiry regarding deferment, the FNPRM does not specify the length of time of the potential deferment. If this deferment is for six months or less, USTA supports the Commission's use of the current universal service mechanisms for non-rural carriers. Although not ideal, using the current universal service mechanism for a few months at least preserves the status quo, is consistent with the Commission's hold harmless objective and avoids any immediate and substantial reductions of federal support. If the deferment is anticipated to continue for a longer period, USTA advocates adoption of its

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<sup>9</sup> USTA has consistently stated its opposition to use the Commission's forward-looking economic cost model. See USTA Comments in CC Docket No. 96-45 filed August 9, 1996, Comments filed December 19, 1996, Reply Comments filed January 10, 1997 and Comments on Second Recommended Decision filed December 23, 1998.

<sup>10</sup> See *Ex Parte* letter from John W. Hunter, USTA Senior Counsel, to Magalie Roman Salas, FCC Secretary, in CC Docket No. 96-45, September 29, 1998; and USTA Comments on the Second Recommended Decision in CC Docket No. 96-45 and DA 98-2410, filed December 23, 1998 (USTA Comments on Second

Universal Service plan as the most equitable and comprehensive means for the Commission to achieve its statutory requirements for universal service reform for non-rural carriers.

USTA recommends that the Commission use the opportunity to extend the planned implementation date for any new universal service fund mechanism for rural carriers, currently set for January 1, 2001, so that the actual date is three years after the effectiveness of the non-rural carrier plan. Several reasons support such an extension. First, the forward-looking economic cost proxy model currently being contemplated for use by the Commission for non-rural carriers has not been tested for rural carriers for purposes of a new universal service plan. Second, the Commission has already extended the new non-rural universal service fund mechanism for at least twelve (12) months beyond the last revised implementation date of January 1, 1999. Third, rural carriers' costs are typically much higher than carriers in urban areas and the rural carriers cost are spread across a small customer base. In determining a new universal service support mechanism, there is no room for error in determining the predictable, specific, and sufficient support levels. The Commission and the carriers will need the full amount of time from initial implementation of the non-rural universal service plan to evaluate the anticipated impact on rural carriers and the proper components of universal service reform for rural carriers.

**B. Filing Requirements For Carriers Under 100,000 Access Lines**

USTA supports the Commission's proposed new reduced filing requirements for carriers serving under 100,000 access lines.<sup>11</sup> USTA agrees that carriers serving under 100,000 access

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Recommended Decision.)

<sup>11</sup> *Id.* at ¶246.

lines should not have to file the annual rural certification unless their status under the rules has changed since their last self-certification filing. This change should lessen the administrative burden for both these smaller carriers and the Commission without adversely affecting the public. It is consistent with the directives of the Act for the Commission to lessen regulatory burdens on carriers.

**C. Filing Requirements for Carriers Serving Over 100,000 Access Lines**

USTA recommends that the Commission refrain from requiring carriers over 100,000 access lines to re-certify as a rural carrier each year unless their rural or non-rural status has changed. There is no more reason to require these carriers to file annually than the carriers under 100,000 access lines and the same administrative savings will benefit both these carriers and the Commission.

**D. Criteria (A) and (D) of the Definition of “Rural Telephone Company” in Section 153(37)**

USTA agrees with the Commission’s conclusion that Census Bureau sources are sufficient for verifying a rural carrier’s status under criterion (A) in Section 153(37), where the study area served does not include any incorporated area of 10,000 or more or any territory in an urbanized area, without further interpretation.<sup>12</sup>

The Commission raises two issues regarding criterion (D) in Section 153(37), which specifies that a carrier is rural if it had less than 15 percent of its access lines in communities of more than 50,000. One issue is whether the term “local exchange operating company” used in

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<sup>12</sup> *Id.* at ¶249.

this criterion is applied on a holding company or study area basis,<sup>13</sup> and the other is what basis should be used for determining communities of 50,000 or more.<sup>14</sup>

With regard to whether the term “local exchange operating company” is applied on a holding company or study area basis, to determine rural status, USTA believes that it must be determined on a study area basis. Two of the four criteria for determining rural status in Section 153(37) use the term “study area” to describe applicability. If Congress meant for rural status to be determined on a holding company basis, the Act would not have included the term “study area” in the definition.

Most LECs have interpreted the phrase “local exchange operating entity” as an operating telephone company operating at the study area level as defined in Part 36 of the Commission’s Rules. USTA believes that the Act and the Commission’s rules only apply to regulated carriers. Holding companies are unregulated entities or corporations.

#### **E. Definition of “Rural Telephone Company” for Universal Service Policies**

The Commission raises the issue of whether it should use the definition of “rural telephone company” to distinguish between rural and non-rural carriers for calculating universal service support.<sup>15</sup> USTA urges the Commission to retain its current different treatment of rural and non-rural telephone companies for purposes of universal service. There is no reason to abandon this separate treatment. The Commission has specifically recognized the differences between rural and non-rural carriers for the purposes of universal service reform. It has deferred changes in the current universal service support for rural carriers and the Joint Board has

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<sup>13</sup> *Id.* at ¶¶250-251.

<sup>14</sup> *Id.* at ¶¶252-253.

appointed a Rural Task Force in specific recognition of the differences between rural and non-rural carriers.

### **III. CONCLUSION**

With regard to model inputs, USTA strongly urges the Commission to use a lower productivity factor throughout its cost model deliberations and to apply an inflation ratio to the factor. Carriers also should be allowed to account for plant that is built to demand.

With regard to the high cost mechanism, USTA continues to advocate the adoption of its Universal Service plan for non-rural carriers and the use of actual costs to size the fund. The USTA plan should be adopted if the Commission defers implementation of universal service reform for a long period of time. If it defers implementation for a short period, the current universal service mechanisms should be employed. USTA also urges the Commission to extend the implementation date for any new universal service fund mechanism for rural carriers to three years beyond the time that the non-rural plan is effective.

The Commission should adopt its proposals to only require carriers whose rural status changes to file certifications. The determination of “rural telephone company” under criterion (A) of Section 153(37) should be based on Census Bureau data. Criterion (D) should be

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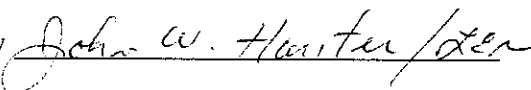
<sup>15</sup> *Id.* at ¶254.



determined on a study area basis and apply to regulated carriers. The Commission's current distinction between rural and non-rural carriers for universal service support should be retained.

Respectfully submitted,

UNITED STATES TELEPHONE ASSOCIATION

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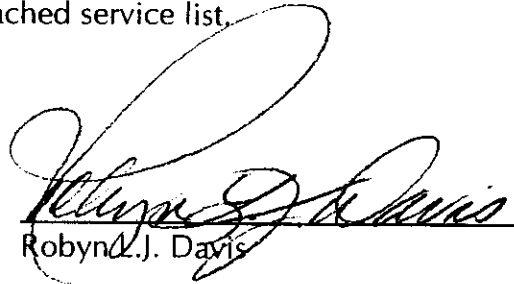
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**CERTIFICATE OF SERVICE**

I, Robyn L.J. Davis, do certify that on July 23, 1999, Comments of the United States Telephone Association were either hand-delivered, or deposited in the U.S. Mail, first-class, postage prepaid to the persons on the attached service list.

  
Robyn L.J. Davis